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MEMORANDUM ON THE ALLOCATION OF THE FEDERAL TAX BURDEN
AND FEDERAL GRANTS-IN-AID BY STATE

Fiscal Year 1986

This memorandum presents a state-by-state comparison of Federal tax burdens with Federal grants-in-aid to state and local governments for fiscal year 1986. The tax burdens in this comparison total \$107,811.9 million for all states and reflect the cost of the Federal grants programs only; total Federal tax burdens in fiscal 1986 were \$744,578 million.

The tax burdens are estimates by the Tax Foundation, based on a special formula that measures the final geographic burden of taxes, as distinguished from the area of initial tax impact (the state from which the taxes are collected), as explained below.

The data on grants-in-aid are derived from "Federal Expenditures by State for Fiscal Year 1986," prepared by the Governments Division, Bureau of the Census, U.S. Department of Commerce. The Tax Foundation adjusts the U.S. total for Federal grants-in-aid, as shown in the Census report, by deducting figures for U.S. Territories, undistributed amounts, and for "shared revenues," such as receipts from public lands and Federal payments in lieu of taxes on Federal lands.

The 1986 Comparisons of Federal Tax Burdens and Federal Grants-in-Aid

Table 1 presents the results of these comparisons for fiscal 1986.

The cost of supporting grant programs fell most heavily on the residents of 19 states whose aggregate Federal tax burdens to support grant programs exceeded the amount of grants received by their respective state and local governments. As a whole, the 127 million residents of the "paying" states paid \$60,525 million in Federal taxes to support grant programs while their state and local governments received \$49,051 million in grants, an average Federal tax burden of \$1.23 for each dollar of grants received. The 114 million residents of the other 31 states and the District of Columbia paid, on the average, 80 cents in Federal taxes for each dollar of aid received by their state and local governments--\$47,286 million in Federal taxes for \$58,761 million in Federal grants.

It should be emphasized that these comparisons of Federal tax burdens for aid payments per \$1.00 of assistance do not actually indicate the entire costs which state and local governments incur for obtaining Federal grants. The comparisons, with few exceptions, do not take into account the costs to these governments of administering the programs for which the aid is granted, nor the amounts of matching funds which the state and local governments must make available out of their own revenues in order to qualify as recipients of these grants. It is estimated that state and local governments provide about 50 cents of matching funds for each \$1.00 of Federal aid.

Allocation of Tax Burdens

Since Federal tax collections data (published by the Treasury Department) are not designed to reflect the tax burden by state, Tax Foundation, in cooperation with other organizations, has developed a special allocation formula to distribute the Federal tax burden by state. This distribution of the Federal tax burden, as estimated for 1986 is given in Table 1. The "tax burden" is consistent with the official unified budget concept introduced with the 1969 Budget.

The bases used for estimating tax burdens appear in Table 2. Essentially the same method and bases have been used for the derivation of these estimates for the past 22 years. However, certain changes in the bases of allocation for certain taxes limit the comparability of current estimates with those of prior years:

- a) Substitution of total property income for dividend income in allocating one-half the corporation income tax (1966).
- b) Elimination of personal income as a base for allocating excise taxes on alcoholic beverages; i.e., use of consumption data alone to allocate this tax (1972).
- c) Inclusion of state unemployment taxes deposited with the Treasury in the total tax burden (1969).
- d) Inclusion of taxes earmarked for the Airport and Airway Trust Fund, established in 1971, in the total Federal tax burden rather than in the Federal fund estimates for "other excises and customs" (1972).

Further explanation of the tax allocation formula--its derivations, uses, and limitations--is contained in Tax Foundation's Research Aid No. 5, Federal Tax Burdens in States and Metropolitan Areas, April 1974 (price \$1.50, plus \$1.00 for postage and handling).

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Table 1
Federal Grants-in-Aid to State and Local Governments
and Estimated Federal Tax Burden for Federal Grants

Fiscal Year 1986

State	Grants ^a (millions)	Percent of total tax burden	Estimated tax burden for grants ^b (millions)	Tax burden per dollar of aid	
				Amount	Rank
Total U.S.....	\$107,811.9	100.00	\$107,811.9	\$1.00	--
Alabama.....	1,710.1	1.25	1,347.6	.79	35
Alaska.....	641.2	.32	345.0	.54	47
Arizona.....	1,189.1	1.20	1,293.7	1.09	14
Arkansas.....	1,112.6	.68	733.1	.66	42
California.....	11,177.2	12.36	13,325.6	1.19	10
Colorado.....	1,168.2	1.42	1,530.9	1.31	6
Connecticut.....	1,501.2	1.92	2,070.0	1.38	3
Delaware.....	313.6	.30	323.4	1.03	17
Florida.....	3,238.8	4.76	5,131.8	1.58	1
Georgia.....	2,726.6	2.19	2,361.1	.87	29
Hawaii.....	473.4	.41	442.0	.93	25
Idaho.....	411.8	.31	334.2	.81	33
Illinois.....	5,009.1	5.31	5,724.8	1.14	11
Indiana.....	1,999.9	2.05	2,210.1	1.11	13
Iowa.....	1,158.9	1.02	1,099.7	.95	22
Kansas.....	882.2	1.01	1,088.9	1.23	7
Kentucky.....	1,769.5	1.13	1,218.3	.69	39
Louisiana.....	2,033.9	1.52	1,638.7	.81	33
Maine.....	672.2	.38	409.7	.61	44
Maryland.....	1,980.5	2.25	2,425.8	1.22	9
Massachusetts.....	3,081.6	2.92	3,148.1	1.02	18
Michigan.....	4,349.8	3.83	4,129.2	.95	22
Minnesota.....	2,106.2	1.73	1,865.1	.89	28
Mississippi.....	1,319.5	.66	711.6	.54	47
Missouri.....	1,978.8	1.99	2,145.5	1.08	15
Montana.....	554.0	.27	291.1	.53	49
Nebraska.....	660.0	.60	646.9	.98	20
Nevada.....	403.5	.42	452.8	1.12	12
New Hampshire.....	403.3	.46	495.9	1.23	7
New Jersey.....	3,353.5	4.29	4,625.1	1.38	3
New Mexico.....	735.8	.47	506.7	.69	39
New York.....	12,380.3	8.62	9,293.4	.75	37
North Carolina.....	2,277.6	2.14	2,307.2	1.01	19
North Dakota.....	411.8	.24	258.7	.63	43
Ohio.....	4,763.4	4.30	4,635.9	.97	21
Oklahoma.....	1,394.0	1.22	1,315.3	.94	24
Oregon.....	1,152.9	.98	1,056.6	.92	26
Pennsylvania.....	5,714.5	4.88	5,261.2	.92	26
Rhode Island.....	570.2	.41	442.0	.78	36
South Carolina.....	1,318.1	1.01	1,088.9	.83	32
South Dakota.....	453.3	.21	226.4	.50	50
Tennessee.....	2,006.0	1.61	1,735.8	.87	29
Texas.....	5,217.3	7.05	7,600.7	1.46	2
Utah.....	769.2	.49	528.3	.69	39
Vermont.....	333.5	.18	194.1	.58	45
Virginia.....	2,012.2	2.45	2,641.4	1.31	5
Washington.....	1,863.5	1.84	1,983.7	1.06	16
West Virginia.....	1,061.4	.56	603.7	.57	46
Wisconsin.....	2,308.4	1.81	1,951.4	.85	31
Wyoming.....	307.9	.21	226.4	.74	38
District of Columbia..	1,381.6	.36	388.1	.28	51

a. Excludes shared revenues and payments in lieu of taxes; includes General Revenue Sharing and trust fund aids.

b. The tax burden for grants is assumed to equal grant payments.

Source: Tax Foundation computations based on data from U.S. Department of Commerce, Bureau of the Census and Treasury Department.

Table 2
BASES FOR ALLOCATING THE FEDERAL TAX BURDEN BY STATE
Fiscal Year 1986

Tax	Base
FEDERAL FUND TAXES:	
Individual income	Individual income tax liability (1984) adjusted by 1985 changes in personal income (Internal Revenue Service)
Corporate income	1/2 personal income ^a (1985) 1/2 property income (1985) (Department of Commerce)
Alcoholic beverages	1/2 total adult population July 1, 1985 1/2 consumption data (1985) (U.S. Brewers Association)
Tobacco	Total adult population July 1, 1985
Estate and gift	Six-year total of estate and gift tax collections (1980-1985) (Internal Revenue Service)
Other excises and customs	Disposable personal income (1985) (Department of Commerce)
TRUST FUND TAXES:	
Old-age, survivors, disability and hospitalization insurance; railroad retirement, and Federal unemployment insurance	1/2 personal income ^a (1985) 1/2 personal contributions for social insurance ^b (1985) (Department of Commerce)
State unemployment insurance taxes deposited with Treasury	Unemployment tax collections (1985) (Department of Labor)
Highway trust fund	
Gasoline, diesel, special fuels, lubricating oil, and heavy vehicle use	Motor fuel excise data (1985) (Bureau of Public Roads)
Trucks and buses, parts and accessories, tires, tubes, and tread rubber	Truck and bus excise data (1985) (Bureau of Public Roads)
Airport and airway trust fund, black lung disability trust fund, and other trust funds	Disposable personal income (1985) (Department of Commerce)

a. Personal income by place of residence.

b. Adjusted for place of residence.

Source: Tax Foundation, June 1987.